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SUBJECT: ECONOMIC ADVISOR SUGGESTS RAJAPAKSE WILL HOLD FINANCE  
MINISTRY PORTFOLIO AND TABLE RESPONSIBLE BUDGET NEXT WEEK

REF: COLOMBO 1935

Classified By: Econchief Dean R. Thompson, Reasons 1.4 B, D and E

1. (C) Summary: During a November 22 meeting with Econchief, Senior Advisor to President Rajapakse, Nivaad Cabral (a long-time Embassy contact) said that the President will retain the Finance Ministry portfolio and that the new budget would be presented sometime next week. The budget will largely keep with the previously-presented plan (reftel), but will add and highlight a few key points from the President's campaign platform. Finance Secretary PB Jayasundera will remain at the Finance Ministry and Cabral will serve as Secretary to a newly formed Ministry of Policy Planning and

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Implementation (Note: Cabral indicated it would be a Ministry, though it was not announced at the Cabinet swearing-in today. End Note), which will also be headed by the President. The President intends to keep the National Council on Economic Development, the Strategic Enterprise Management Agency, and National Procurement Agency intact, but to clarify their mandates. Cabral was receptive to Econchief's briefing on US-Sri Lanka bilateral economic relations - including MCA, Megaports, CSI, US Treasury Advisor programs, TIFA/WTO and the American Chamber of Commerce and expressed confidence that the new administration would quickly reassure markets with regard to its underlying economic policies. End Summary

2. (C) On November 22, President Rajapakse's senior Economic Advisor, Nivaad Cabral, told Econchief that Rajapakse will retain the Finance Ministry portfolio (as well as the defense portfolio) and will table a new budget (as predicted reftel) sometime next week. According to Cabral, the budget will keep much of the framework of the one announced on November 8 by former Finance Minister Sarath Amunagama. However, it will be reworked to include key Rajapakse initiatives, such as a fertilizer subsidy and "some changes to the program in the health and education sphere," in keeping with the President's campaign promises. When queried about whether the GSL would maintain the previous budget's cap on fuel subsidies, Cabral demurred, saying a decision still had to be taken - but that keeping the lowered subsidy "would be hard." Cabral said the GSL will endeavor to keep the budget deficit in line with the prior proposal (about 7.5% of GDP). In order to keep the deficit in check, the budget will earmark certain funds from the Provincial Council (PC) budgets for regional development projects (Note: Provincial Council funding is largely provided by the central government. Cabral claimed the administration is in discussions with the PCs and has their agreement on this. End Note). On the whole, Cabral suggested, the budget will not be dramatically different, but it needs to be presented by this administration in order to counter what he called "successful United National Party (UNP - the primary opposition party) propaganda" suggesting that the budget tabled on November 8 was designed to show the former President's displeasure with the Rajapakse campaign platform.

3. (C) As for the Rajapakse administration's economic structure, Cabral said that current Finance Secretary PB Jayasundera will remain, but that a new Ministry for Policy Planning and Implementation, with Rajapakse serving as Minister, will be formed within the Presidential secretariat (Note: this ministry was not announced when the new cabinet ministers were sworn in on November 23. End Note). Cabral will serve as Secretary of this Ministry and will report directly to the President. Cabral suggested that monitoring and implementation have been sorely lacking in GSL entities in the past, and thus strong leadership in this area is required (Note: Cabral has made a very successful career as a consultant engaged in advising corporations on corporate governance and restructuring troubled companies, so his perspective on the workings of Government entities will be unique. End Note).

4. (C) Cabral said Rajapakse will retain former President Kumaratunga's economic policy bodies, such as the National Council on Economic Development (NCED), the Strategic Enterprise Management Agency (SEMA) and the National

Procurement Agency. According to Cabral, these entities have strong organizational structures, but can be better directed and made more "goal oriented" in their approach to their tasks. Cabral suggested the President is considering a plan to issue all Ministers a set of policy goals, which would then be publicized, allowing public monitoring of performance. Cabral quickly added, however, that this was a controversial idea and is still under discussion.

15. (C) Econchief briefed Cabral on MCA, CSI, Megaports, current US WTO initiatives, TIFA and our efforts to strengthen the American Chamber. He listened intently and several times expressed a strong desire to work closely with the US on all such initiatives. Econchief noted that, contrary to perceptions in some circles, the US had not favored any candidate in the recent elections, and hopes to work with President Rajapakse's administration - though how well we can work together will depend on how the new President's policies affect the key USG goals in Sri Lanka: peace and prosperity. Cabral felt that once the new budget was presented and the new cabinet named, many concerns about President Rajapakse's stance on peace and economic liberalization would be relieved.

16. (C) Comment: Cabral is a long-time Embassy contact, and former Eisenhower fellow, who is friendly to the US and keen to see increased US investment and stronger bilateral ties. He is widely viewed as being the architect of Rajapakse's campaign platform, along with Treasury Secretary PB Jayasundera. We believe he will be a useful interlocutor, with access to the new President, who can help us navigate the new administration's economic plans. Cabral's demeanor and business background will likely allow for a more productive relationship than with the mercurial Jayasundera at the Finance Ministry. The relationship between Cabral and Jayasundera is unclear however, and how well they cooperate, or don't cooperate, could give an early indication of smoothly the new GSL can implement its economic policy initiatives. End Comment.

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